

State Risk Management Committee Agenda

August 29, 2006

State Capitol, Room 172

9:00 a.m. to 12:00 p.m.

Mr. Brett Dahl, Administrator of Risk Management and Tort Defense (RMTD) thanked everyone for coming to the meeting. Members of RMTD staff were introduced: Cathy Meidinger, Accounting Technician; Jennie Younkin, Claims Specialist; Marjie Adams, Claims Specialist; Jennifer Marsicano, Administrative Assistant; John Duezabou, Training Development Specialist; Aric Curtiss, Risk and Loss Control Specialist; and Kristie Rhodes, Risk Finance Specialist. An agenda was provided to attendees.



Agenda

Those in attendance at the meeting were: Judy Barnes, Department of Administration; Jeff Shada, MSU Bozeman; Sharon Smith, Department of Corrections; Susan Dickson, MSU Billings; Ken McElroy, Corrections; Teri Juneau, Department of Commerce; Julie Sanders, Department of Fish Wildlife & Parks; Kathy Battrick, Department of Public Health & Human Services; Mike Buckley, Department of Transportation; Jan McArthur, Department of Agriculture; Shelby Grandy, Supreme Court; Diane West, Department of Labor & Industries; Tryna Pennington, Secretary of State; Dave Hamer, Department of Environmental Quality; Virginia Cameron, Department of Environmental Quality; Kelly Dasilva, Legislative Branch; Jerry Stier, State Auditors Office; Marilyn Cameron, Montana Tech; Kathy Benson, U of M Missoula; Erv Kent, Military Affairs; Staci Litschauer, Public Service Commission; Donna Aldrich, Department of Fish, Wildlife & Parks; Darlene Gilchrist, Department of Fish, Wildlife & Parks; Patti Forsness, Department of Justice; Angela Aldrich, Department of Justice. Members of the committee not in attendance included: Peter Donovan, Board of Education; Russ Fillner, Helena College of Tech of UM; Larry Delaney, Higher Education; Jennifer Bottomly-O'looney, Historical Society; Carleen Layne, Montana Arts Council; Ed Binkley, MUS College of Tech-GF; Bob Levitan, Natural Resources & Conservation; Julia Dilly, Office of Public Instruction; Sandy Lang, Department of Revenue; Julie Stewart, State Library; Dan Corti University of Montana; Ken Willett, University of Montana; Tom Nichols, Western MT College of UM.

Item 1 Property Appraisals

Mr. Curtiss of the Risk Management & Tort Defense Division initiated a discussion of property appraisals indicating that the state property appraisal program began in 1996 with a list from the Architects & Engineering Division. At that time, some of the properties were either under-valued or their values were not accurate. Over the past 10 years numerous appraisals were completed for various properties, however, they were not conducted on a regular schedule.

With the addition of a new loss control staff member, resources now exist to appraise all properties, valued at over a million dollars, on a five-year cycle. Properties that are reported to RMTD as being 'historical' will also be appraised on a five-year cycle. The document provided in this section, is a proposed schedule of appraisals. Building values and appraisal priorities change, therefore, this schedule may change as properties are added to or deleted from the appraisal schedule.

Two different companies are being used for appraisals; Maximus for regular buildings, and American Appraisal Associates for historical properties. Mr. Curtiss indicated that when it is

time for appraisals to be conducted in a particular area, a representative from the building is contacted. The appraisal process includes verification of key information about the building such as the square footage of the building. Appraisals are for the structure only, not the contents.

A member of the committee asked “Are buildings that are under valued covered?” Mr. Dahl indicated that such a building is covered because the state has an ‘agreed amount’ clause in its insurance policy,’ however, it is important to make a ‘good faith’ effort to appraise state properties to assure that their values are accurate and to minimize the possibility of an insurance coverage dispute.

A member of the committee asked another question “Is there a penalty or any kind of a make up the next year?” Mr. Dahl stated there is no penalty.



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Item 2 Property Inspections

Mr. Curtiss indicated that state buildings are inspected for fire, wind, hail, or any type of threat to the building. The structure itself is inspected, not the contents. Buildings that are valued at one million dollars and over are inspected. If the building is of historical value or if a building is vital then RMTD can add it to the list of buildings to be appraised.

A member of the committee asked a question “Will safety hazards still be on the inspection report?” Mr. Curtiss stated that those hazards noted during the inspection will still be on the report in the form of recommendations.

Item 3 FY07 Insurance Premium Discount Participation

Mr. Dahl indicated that participation in insurance premium discount programs is up from last year and agencies are reaping the rewards in the form of lower insurance premiums. RMTD offers three insurance premium discounts: Auto Insurance, High Deductible, and Property.

The Auto Insurance Premium discount program is 5% for state agencies and universities that send 5% of their employees to defensive driving training and implement the State Vehicle Use Rule. Any state driver in a vehicular accident since July 1, 2003, that resulted in a claim must participate in the training.

The High Deductible Insurance Premium Discount Program offers a high deductible insurance premium discount on auto physical damage (comprehensive/collision) and property insurance. The purpose of the discount is to give state agencies and universities the opportunity to realize insurance premium saving through higher deductibles, cost sharing, and loss prevention.

The Property Loss Management Program offers a property insurance discount of 10% to agencies that establish and maintain a comprehensive and effective Property Loss Management Program. To qualify for the discount, agencies must submit the following to Aric Curtis:

- A schedule of preventative maintenance completed for key buildings.
- Checklists for self-inspections completed on key buildings.

- Policies and procedures for “hot works” “impairment testing of fire protection equipment,” “pre-fire emergency planning,” and “cold weather precautions.”
- Blueprints, plans, and modifications for major renovations and new construction.
- Written responses to recommendations contained in Property Loss Management letters issued by RMTD.

Currently 20 agencies are participating in Property Loss Management Program.



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Item 4 Client Visits

Mr. Dahl stated that over the past year all state agencies were visited by staff at the Risk Management & Tort Defense Division to discuss insurance, review loss trends, and visit about loss prevention measures. Mr. Dahl thanked all the agencies for facilitating the visits. The inserted documents list the teams and the agencies that were visited. Mr. Dahl asked if the visits were beneficial or did they create more confusion and questions? Representatives indicated that the visits were beneficial, resulted in better coordination, and more things were being done correctly as a result.

Mr. Dahl stated if any one had suggestions, comments or concerns about the visits to contact him.



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Item 5 Insurance Renewal 07

Mr. Dahl reminded the committee that policies renew on July 1st of every fiscal year. The state’s broker is Driver Alliant for Property coverage, Mountain Air for aviation, and Willis for miscellaneous risks. Broker selection takes place every 5 years.

There are five major coverage’s: Aircraft, Boiler and Machinery, Crime, Fine Arts, and Property.

- Aircraft: \$750,000 per claim, \$1.5 million per occurrence. The coverage for 2007 basically remained the same. The pricing did increase. Actual pricing for 2006 was \$265,059 and actual budget for 2007 \$273,604
- Boiler and machinery: covers sudden and accidental breakdown of boilers, vessels, refrigerating and air conditioning equipment as well as sudden breakdown of mechanical or electrical machine apparatus. Covered losses only apply to objects in use or connected and ready for use at named locations. Pricing comparison for 2005 coverage was \$54,000, and budgeted premium in 2006 was \$54,150 and actual premium for 2007 was \$45,603.
- Crime Coverage; the policy limits increased to cover cash and convertible instruments at the state treasury where average daily deposits are over \$7,000,000. Under policy limits

the limits for Dishonesty, Forgery/Alteration, Computer Fraud, Theft, Destruction, Disappearance, increased from \$2 million to \$10 million. The deductible did increase from \$100,000 to \$500,000. The actual premium for 2006 was \$56,237 and 2007 actual premium is \$99,000.

- Fine Arts: there were no major coverage changes. The actual premium for 2006 was \$36,000 and actual premium for 2007 is \$40,595.
- Property Insurance: there were no major coverage changes. The actual premium for 2006 was \$986,438 and the actual premium for 2007 is \$1,502,677.



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Item 6 Claims Patterns and Trends

Ms. Adams provided a handout on statistical indicators for the past 6 years. This handout includes the number of claims, number of exposures, total incurred losses, estimated claims payable, average cost per claim, earned premium and loss ratio. See inserted document.

Ms. Younkin presented an update on the 2005 earthquake damage in Dillon. The building that received the most damage was the Old Main building at UM Western in Dillon. Parts of the building were built in 1836. The oldest part of the building was damaged the most. An abandoned chimney was severely damaged and unfortunately it had to be removed.

Because of the aftershocks, the spires were also damaged. A construction company put in a temporary brace and then an architecture firm designed and built a permanent fix. Those two buildings cost the state around \$200,000. Block Hall is another building that received damage. This building was built in 1950 and when built sprayed with asbestos filled insulation. This building is the home for classroom, laboratories and several office buildings. When the earthquake hit it shook the ceiling tiles down. The biggest concern was that there could have been asbestos through out the building. An environmental company came in and did an asbestos cleanup and the building was repaired. The cost of the damage to this building was \$90,000.

There were 10 other buildings that received damage from the earthquake but these damages were minor and they were classified to be structurally safe. The estimated cost to repair these damages was \$350,000. The total cost of the entire earthquake damage to UM Western is \$600,000.

The Montana Law Enforcement Academy also received damage, but was minor and the damages came to around \$9,000. The Department of Transportation also received damage, but it was minor. The Meat Hotel at Bannack State Park received damages but according to the expert 10% more damaged happened because of the earthquake. This building is a historical building and there will not be an attempt to make the repairs, in order for repairs to be made the historical value would go down.

Ms. Younkin gave an update on the ammonia contamination in Butte. During a defrost cycle, a fitting came loose allowing ammonia to leak into the freezer causing contamination to the food.

The food was sent to a laboratory, tested, and found contaminated. The USDA and FDA ordered the food to be destroyed. The cost to destroy the food totaled almost \$333, 000. Some of the food had already been distributed to the schools so there was an extra shipping cost to return the food. This cost was \$36,000.

Ms. Younkin reviewed content of the RMTD website. Committee members were reminded that they can use the RMTD website to look at their reports. See attachment for step by step instructions



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Item 6 Loss Prevention Training

Mr. John Duezabou talked about loss prevention training programs available from RMTD. This training is designed to help state and university employees avoid situations that might result in an insurance claim or lawsuit. There are several courses that RMTD will offer to state and university employees free of charge.

Here is a list of current and upcoming training that are offered to state & university employees for free. See attachment for full descriptions or you can access the web site at <http://rmtd.mt.gov/training/courses.asp>.

- Workplace Violence Prevention
- Defensive Driving – Van Safety
- Preventing Distracted Driving
- Cover Your Assets (in development)
- Defensive Driving 6-Hour Course



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Item 7 Budgeted Insurance Premiums 09 Biennium

Mr. Dahl discussed the fixed cost fair. The Department of Administration bills agencies for services that are provided internally to government, which are fixed costs in agency's budgets. Mr. Dahl stated that insurance premiums are combined into the following decision packages; auto, aviation, general liability, and property. There is a five step process to determine premium rates.

1. Evaluate historical exposure, losses, and premiums.
2. Project unallocated expenses through FY09.
3. Project allocated expenses through FY09.
4. Determine an appropriate level of premium to achieve funding objectives.
5. Apportion premiums to state agencies and universities based upon historical loss experience and exposure.



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Item 8 Division Policies & Procedures

Mr. Dahl stated that the RMTD website has been updated. The policies have been updated on the web site, under About Us, Other Links About Us, Statutes Rules and Policies.

The meeting concluded and members adjourned at approximately 12:00 p.m.